

## Tariff Escalation

Tariff escalation refers to the situation where tariffs are zero or low on primary products and then increase, or escalate, as the product undergoes additional processing. Further, when tariffs on products escalate with the stage of processing, the effective rate of protection, or the tariff expressed as fractions of value-added after deducting intermediate inputs from product value, also increases. Thus, tariff escalation potentially signals high rates of protection for value-added or processed products, and can inhibit international trade in these goods. For a few countries, however, the opposite may occur, with higher tariffs on bulk commodities raising raw material costs, thus placing a country's processed exports at a competitive disadvantage to other countries, a situation known as tariff de-escalation.

The commodity breakouts presented in table 2 identify a number of primary and processed commodity stages, albeit at a somewhat aggregate level. To give some indication of the extent to which tariffs escalate in the agricultural sector, table 6 shows various processing stages for a number of commodity groupings and gives the mean tariff by region.

A number of important points emerge from table 6. First, although there is evidence of tariff escalation in a number of commodities across both developed and developing regions, there are also many regions and commodities in which tariff escalation does not appear to be a problem. In 7 of the 13 regions, tariffs on processed products exceed those on the raw material in more than half of the cited examples. Tariff escalation is most evident in the schedules of Eastern Europe and the Middle East, followed by North America, South Asia, and the EU. In Eastern Europe, tariffs tend to escalate by at least 10 percentage points in all but three processing chains. The largest example of escalation, however, is for sweeteners in North Africa, where the mean tariff increases by over 100 percentage points over those on sugar beets and sugarcane.

Processed products in which escalation is most pronounced include meats, sweeteners, and vegetable oils. Tariffs increase with processing in 10 regions within the meats and sweeteners sectors and in 9 regions within the vegetable oils sector. In some cases (meat in Southern Africa and Other Western Europe and vegetable oils and sweeteners in North Africa), the average spread between primary and processed commodity tariffs is over 50 percentage points. Other examples of spreads exceeding 50 percentage points include vegetable juice in Eastern Europe and tobacco products in North America.

Tariffs in some processing chains do not increase and may even decline with additional processing. The countries of Sub-Saharan Africa and the Caribbean tend to have uniform tariffs across all agricultural products and account for the bulk of the cases where no change occurs across the processing chain. The hides and skins sector provides the best example of tariff de-escalation, or tariff protection declining with processing. In 9 of the 13 regions, the average tariff on hides and skins declines compared with the average on live animals. Other studies of tariff escalation suggest that tariff de-escalation is particularly common in the case of multiple outputs (Lindland). Thus, while tariffs on hides and skins are lower than those on live animals, the tariff on meat, the main output in this multiple processing relationship, tends to be much higher. A pattern of tariff de-escalation can also result when the processed import is at the first stage of processing. In this case, tariffs on the finished product (in our example, leather goods) would then escalate. In agriculture, a pattern of tariff de-escalation might be tied to the level of support provided by farm programs, which, to be effective, might require high border protection on primary products. In some of these cases, however, products at a higher level of processing may receive protection in forms other than tariffs, such as higher transport costs or the ability of domestic firms to exercise monopoly power (Yeats).

**Table 6—Average tariffs by region and level of processing<sup>1</sup>**

	North America	Central America	Caribbean Islands	South America	EU-15	Other W. Europe	Eastern Europe	Middle East	North Africa	Sub-Saharan Africa	Southern Africa	Asia-Pacific	South Asia	All regions
Grains	25	55	86	46	53	100	47	40	84	75	37	60	103	69
Grain products	19	50	86	40	48	122	65	45	82	75	54	54	117	70
Oil seeds	18	42	86	37	0	90	14	36	53	75	34	33	110	59
Oilcake	13	45	86	40	3	81	9	39	78	75	33	22	112	57
Vegetable oils	17	72	79	39	13	95	34	38	106	75	81	24	134	62
Live animals	21	48	88	34	30	233	65	43	93	75	0	30	111	69
Hides & skins	6	59	86	37	0	22	45	39	50	75	20	20	101	57
Fresh & frozen meat	65	77	90	43	54	291	86	62	89	75	82	32	111	74
Prepared meat	41	55	90	41	43	282	74	67	58	75	44	35	122	74
Fruit, fresh	10	52	86	40	21	51	39	65	36	75	22	30	108	58
Fruit preparations	12	52	86	39	21	48	49	50	34	75	37	28	117	55
Fruit juice	12	48	86	37	37	49	66	59	34	75	26	28	107	57
Vegetables: fresh	11	54	86	41	16	175	28	60	30	75	31	31	110	69
Vegetable preparations	12	51	86	38	21	123	47	59	35	75	43	28	109	60
Vegetable juice	25	52	86	39	16	26	88	98	34	75	26	32	107	63
Sugar beet	12	45	86	38	349	144	49	38	33	75	26	22	110	70
Sugar cane	12	45	86	38	56	99	34	38	32	75	26	24	110	62
Sweeteners	50	65	86	39	59	82	73	42	143	75	22	38	121	69
Tobacco (unmanufactured)	28	64	86	38	14	28	42	58	98	75	44	206	110	89
Tobacco (products)	112	66	86	38	38	29	64	79	59	75	54	32	119	66

<sup>1</sup>Tariffs are bound MFN rates based on final URAA implementation.  
Source: Economic Research Service, USDA.